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FOREIGN SERVICE DESPATCH

FROM : AMEMBASSY, GUATEMALA — 942 DESP. NO.

TO : THE DEPARTMENT OF STATE, WASHINGTON. — April 24, 1953

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SUBJECT: WEEKA NO. 17 - ECONOMIC SECTION

DECLASSIFICATION DATE 12074 — PER Chulmes — OFFICE ARA — FADRC FOI CASE NO. 740332

SECTION II

The Guatemalan Government's need for additional revenue to finance its extensive economic development program was utilized by the Communists in their campaign against American businesses here when Communist Deputy Victor Manuel GUTIERREZ warned Congress this week that the State's obligations would force it into bankruptcy if taxes on "foreign and capitalistic enterprises" were not raised. At the same time Sr. Gregorio PREM Beteta, Minister of Finance, announced a re-interpretation of a 1947 law which substantially raised the tax on investment income. Colonel Carlos AJDANA Sandoval, Minister of Communications, said that the four-year highway program would cost about $60,000,000 but did not explain how it would be financed.

Sr. Ricardo RODRIGUEZ P., AVIATECA president, privately stated that a press report was true that the Government-owned airline's application to operate a scheduled service to New Orleans and Miami has been "approved" by the United States Department of State and was now before the Civil Aeronautics Board.

Taxes and Government Finance

Although local businessmen have protested that new and increased taxes introduced during the past six months will force many of them to close down, Deputy Víctor M. Gutiérrez (Communist) told Congress this week that the Government's serious financial situation could drive it into bankruptcy if higher taxes were not imposed on "foreign and capitalistic enterprises". Noting a petition presented by "STEG", the Communist-dominated teachers' union, for higher salaries in public schools, Sr. Gutiérrez said that the Government already had tremendous obligations of the most pressing nature and it would be very difficult to meet the teachers' demands.

DEPARTMENT OF STATE RECEIVED APR 30 1953 MESSAGE CENTER

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Illustrating the Government's need for increased revenues, Sr. Gutiérrez said that no reserves existed to pay pensions, which within 10 years would amount to $10,0 ,000 a year; that debts amounting to $700,000 in connection with the highway program were long overdue; and that the State was faced with the serious problem of providing credit for 49,000 families expected to benefit under the Agrarian Reform Law.

The tax on investment income was increased substantially by an interpretation by the Government Tax Collection Office which provides that a single flat rate shall apply to gross annual income rather than a progressive rate scale after deductions. Sr. Gregorio PREM Betet., Minister of Finance, held that the pertinent 1947 law had been misinterpreted and said he would consult with Congress on the question of collecting the increase retroactively.

Highways

Colonel Carlos Aldana Sandoval, Minister of Communications, told the press this week that the Government's four-year highway construction program would cost about $60,000,000 This was based on an estimated average of $64,000 per mile. He offered no details on how the funds would be obtained. It will be recalled that when the Official Daily last week announced the Government's road-building plans, it also avoided any explanation of the means of financing them.

Meanwhile, the Ministry of Finance made the first withdrawal from the $20,000,000 fund to finance the Government's Public Works Program by issuing a $200,000 draft payable to the Department of Highways.

Aviation

According to a press report, the United States Department of State has "approved" an application by AVIATECA, Government-owned airline, to operate a scheduled freight-passenger service to New Orleans and to Miami and the application is now before the Civil Aeronautics Board. Sr. Ricardo Rodriguez P., AVIATECA president, privately stated that the newspaper story agreed with information which he had received from Washington and that plans were under way to borrow $600,000 from the Bank of Guatemala to purchase a DC-4 for use on the new routes.

R E Schoenfeld

Rudolf E. Schoenfeld

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